RTO West Credit Policies Related to SC Use of Imbalance Energy

Because of the potential credit exposure resulting from large Imbalance Energy defaults, RTO West needs to develop a pricing structure and other measures for use of Imbalance Energy which motivate SCs to (i) limit their reliance on Imbalance Energy to inevitable forecast errors or other errors due to unpredictability, (ii) serve general load obligations out of the Hourly and Real Time Markets, and (iii) minimize outstanding balances owed to RTO West for Imbalance Energy. The main purpose of RTO West policies regarding Imbalance Energy should be to discourage SCs from inappropriately using the Imbalance Energy Market as a means to serve load and to pay for Imbalance Energy as soon as possible, which will in turn minimize the credit risk from such use. The RTO West liability and risk management working group encourages an ancillary services design that accounts for the potential credit exposure that may arise from inappropriate use of Imbalance Energy.

The RTO West Credit Standards will contain settlement and cost allocation policies which address concerns related to risk management and will provide for a multiple-tiered structure of charges with respect to amounts owed for Imbalance Energy.

General Imbalances:

RTO West will calculate, account for, and settle Imbalance Energy in the Real Time Market for each Settlement Period (to be defined). The baseline for determining use of Imbalance Energy will be the last valid schedule received from the Scheduling Coordinator. For each Interval (to be based on an hourly calculation, subject to the ancillary services group) of the Settlement Period, RTO West will compute a Market Price (to be defined) for the corresponding Interval. Imbalance Energy charges attributable to each SC for each Settlement Period will be settled by debiting or crediting, as the case may be, the SC with an amount, to be determined.

Trading Imbalances:
SCs will be able to trade imbalances to reduce the amounts that they will pay RTO West or would be paid by RTO West for Imbalance Energy. Self-providers will have the energy they provide set off against their imbalances to determine their net imbalance.

Creation of Credit Insurance Pool:
The money collected by RTO West which exceeds the amounts it pays for Imbalance Energy will be retained by RTO West as a "Credit Insurance Risk Charge" and will be deposited in a "Credit Insurance Pool" dedicated to cover SC credit defaults. Such amounts may be used only for the Credit Insurance Pool, and may not be used for any other purpose or to pay other RTO West expenses. [The workgroup should discuss what should happen if the Credit Insurance Pool becomes larger than necessary, e.g. whether RTO West should use the collections to offset a portion of the grid management charge that is allocated to schedules so that those SCs that lean on the Imbalance Energy market would get less back.]

Credit Charge:

There will be a Credit Charge assessed on the outstanding payables balances of SC's with respect to amounts owed to the RTO. The Credit Charge would be charged daily on outstanding balances, and would reflect credit risk, as well as RTO West's cost of capital and other credit related costs. The amounts collected would be used to pay RTO West's credit related costs and any excess would be deposited in the Credit Insurance Pool to pay for potential defaults. The Credit Charge would be adjusted annually by the RTO Board in light of cost of capital, anticipated credit related costs, potential defaults, and the balance of the Credit Insurance Pool. The Credit Charge will encourage SC's to minimize their credit balances by minimizing their use of Imbalance Energy and by installing metering so that they can pay their balances more frequently. [The question is, without metering, how do we assess the balances, unless we do it retroactively at the end of the billing period? One possibility is that the RTO West settlements process could be structured to encourage SCs to minimize their credit exposure by allowing for expedited payment either through a more timely meter reading and settlement process or by use of an estimated payment process. This will provide participants with the ability to minimize their applicable credit charges by shortening their settlement period.]

[Penalty for Use Outside of Approved Use Range:

If an SC's Imbalance Energy usage for the applicable Interval is within a certain percentage (the "Approved Use Range" -- to be determined) of its submitted schedules after netting load, resources and imbalance trades between SCs; the Imbalance Energy will be bought or sold at Market Price. Market Price for undersupply by an SC will be set at the highest bid accepted by RTO West for that Interval. For oversupply, the Market Price will be set at the lowest bid accepted by RTO West for that Interval. RTO West will have some ability to make modifications within the Approved Use Range without approval; however, it is assumed that any modifications outside of the Approved Use Range will be filed in the tariff filed with FERC. It is proposed that the RTO West Board could set the Approved Use Range at any number between 5% and 15% without a FERC tariff filing.

If the Imbalance Energy of an SC exceeds the Approved Use Range, the SC will be required to pay an additional charge equal to a percentage of its Imbalance Energy. This charge also will be deposited in the Credit Insurance Pool. An SC will have the right to appeal RTO West's assessment of this charge by demonstrating that it exceeded the Approved Use Range for "good cause." Good cause may be unexpected weather, an unexpected generator outage, unexpected tripping of single large loads, and other force majeure events.]

We understand that this section will no longer apply because the Credit Charge will be substituted for the penalty charge.]